

PUBLIC DISCLOSURE

SEPTEMBER 11, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

MIDDLESEX SAVINGS BANK

90183

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Division of Banks

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<p>NOTE: This document is an evaluation of the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal Deposit Insurance Corporation or the Division of Banks concerning the safety and soundness of this financial institution.</p>

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GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires the Federal Deposit Insurance Corporation (“FDIC”) and the Massachusetts Division of Banks (“Division”) to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Middlesex Savings Bank (or the “Bank”)** prepared by the Division and the FDIC, the institution's supervisory agencies, as of **September 11, 2013**. The agencies evaluate performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution’s branches. The Division and FDIC rate the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00 and Part 345 of the FDIC’s Rules and Regulations.

INSTITUTION'S CRA RATING

This institution is rated “Outstanding” by the FDIC and the Division.

LENDING, INVESTMENT, AND SERVICE TEST TABLE

PERFORMANCE TESTS Middlesex Savings Bank			
Performance Levels	Lending Test*	Investment Test	Service Test
Outstanding		X	X
High Satisfactory	X		
Satisfactory**			
Needs to Improve			
Substantial Non-Compliance			

*Note: The Lending Test is weighed more heavily than the Service and Investment Tests when arriving at an overall rating.

**Note: FDIC rules and regulations stipulate use of a high satisfactory and low satisfactory rating for the three tests. For purposes of this jointly issued public evaluation, the term “satisfactory” will be used in lieu of the “low satisfactory” rating for the lending, investment, and service test ratings.

LENDING TEST

The Bank's Lending Test performance is rated "High Satisfactory."

- The Bank's home mortgage and small business lending activity reflects good responsiveness to assessment area credit needs considering the size of the institution, its loan portfolio composition, and the significant level of competition within the assessment area.
- A high percentage of home mortgage and small business loans were originated within the assessment area.
- The geographic distribution of the Bank's home mortgage and small business loans reflects adequate dispersion throughout the assessment area, especially in low- and moderate-income geographies, when compared to assessment area demographics and aggregate lending performance.
- Overall, the borrower distribution of the Bank's home mortgage and small business loans represents excellent penetration to individuals of different income levels and businesses of different sizes. The rating was primarily based on the Bank's strong performance in lending to low- and moderate-income borrowers and small businesses.
- The Bank was a leader in making community development loans within its assessment area or the broader regional area given its asset size and financial resources. These loans primarily benefitted organizations that provide affordable housing and community services to low- and moderate-income individuals and families in the assessment area.
- The Bank makes use of innovative and flexible lending programs to meet the credit needs of low- and moderate-income borrowers, first-time homebuyers, and small businesses. These programs are provided internally by the Bank and through various partnerships with Federal, State, and community development organizations.

INVESTMENT TEST

The Bank's Investment Test performance is rated "Outstanding."

- The Bank made an excellent level of qualified investments and grants. Qualified investments and grants provided excellent responsiveness to the assessment area's community development needs, making significant use of innovative or complex initiatives. The Bank made approximately \$8.5 million in new qualified investments in addition to the \$7.4 million in existing investments. The level of current investments significantly exceeded the investment level at the prior CRA evaluation.
- The Bank also made a significant level of qualified charitable donations to help address a variety of community development needs within the assessment area and other communities, primarily within Massachusetts. The Bank made a portion of its community development donations through the Bank's Charitable Foundation. The Bank's investment efforts were very responsive to community development needs, especially given the limited opportunities due to the affluent nature of the assessment area.

SERVICE TEST

The Bank's Service Test performance is rated "Outstanding." The rating is primarily based on the Bank's leadership in providing community development services that benefit the assessment area. The Bank is a leader in providing financial education to the communities in the assessment area.

- The Bank's delivery systems are accessible to all portions of the assessment area.
- To the extent that changes have been made, the Bank's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate- income geographies and/or to low- and moderate- income individuals.
- The Bank's services and business hours do not vary in a way that would inconvenience any portion of the assessment area.
- The Bank is a leader in providing community development services. Bank officers and staff members provided their financial expertise to help address community needs through their involvement in various community organizations. Many of these services involve Bank management taking an active leadership role in these organizations. Bank management and employees also developed and participated in educational seminars targeted toward low- and moderate-income families, borrowers, first-time homebuyers, as well as small businesses. The Bank targeted many of these efforts to the portions of the assessment area demonstrating the greatest need, which generally did not receive service support from other financial institutions.

PERFORMANCE CONTEXT

Description of Institution

Middlesex Savings Bank is a Massachusetts-chartered, mutual savings bank headquartered at 6 Main Street in Natick, Massachusetts. In addition its main office in Natick, the Bank operates 29 full-service branches throughout Middlesex, Norfolk, and Worcester counties. The Service Test section of this evaluation includes a full list of these branches. In addition to these full-service locations, the Bank also operates 4 commercial lending offices, 4 full-service automated teller machines (ATMs), and 4 cash-dispensing ATMs.

Middlesex Bancorp, MHC is the sole owner and parent of Middlesex Savings Bank, existing solely to own the Bank and is engaged in no other business activity. First Evergreen and Middlesex Securities Corporation are wholly-owned subsidiaries of the Bank. First Evergreen holds the Bank's other real estate owned while Middlesex Securities Corporation is an investment subsidiary.

The Bank offers a full range of products and services which meet the financial and credit needs of consumers and businesses. Consumer loan product offerings include auto loans, home equity lines and loans, personal loans, reserve lines of credit, and residential mortgages. Business loan product offerings include lines of credit and term loans, commercial real estate mortgages, residential development loans, equipment financing, letters of credit, Small Business Administration (SBA) loans, and United States (U.S.) Department of Agriculture (USDA) loans.

Table 1 illustrates the current distribution of the Bank's loan portfolio.

Table 1 – Loan Portfolio Distribution as of June 30, 2013		
Loan Type	\$(‘000s)	% of Total
Loans Secured by Real Estate:		
Construction, Land Development, and Other Land Loans	162,384	6.6
Secured by Farmland	1,053	0.1
Revolving, Open-end Loans Secured by 1-4 Family Residential Properties and Extended Under Lines of Credit	111,413	4.5
Closed-end Loans Secured by 1-4 Family Residential Properties: Secured by First Liens	1,197,385	48.6
Closed-end Loans Secured by 1-4 Family Residential Properties: Secured by Junior Liens	23,082	0.9
Secured by Multi-Family (5 or more) Residential Properties	33,999	1.4
Secured by Nonfarm Nonresidential Properties	692,635	28.1
Commercial and Industrial	228,999	9.3
Loan to Individuals for Household, Family, or Other Personal Expenditures	11,047	0.5
Other Loans	12	0.0
TOTAL LOANS	2,462,009	100.0

Source: June 30, 2013 Call Report

As of June 30, 2013, the Bank's total assets were \$4.0 billion. Net loans (total loans less the allowance for loan and lease losses) totaled \$2.5 billion, representing 61.1 percent of total assets. Since September 30, 2009, assets increased approximately \$78.9 million, or 2.0 percent, while net loans increased by 11.5 percent. The Bank's loans are heavily concentrated in residential and commercial real estate. Similar to the prior evaluation, Middlesex Savings Bank primarily originates loans secured by 1-4 family residential real estate, followed by loans secured by commercial real estate (nonfarm, nonresidential properties).

The Bank operates in a highly competitive market area in terms of financial services. Middlesex Savings Bank ranked 18th out of 478 HMDA-reporting lenders originating mortgage loans in the assessment area in 2011. All but one of the lenders ranked higher than the Bank were either mortgage companies or large national or regional banks. With respect to small business loans, the Bank ranked 17th among 119 CRA data reporters in making small business loans within Middlesex, Norfolk, and Worcester counties. Peer data for small business lending is only available at the county level. This data also does not capture small business lending activity from many community banks that do not report CRA data. The Bank considers its direct competitors to be large banks such as Bank of America, N.A.; TD Bank, N.A.; RBS Citizens, N.A.; and Sovereign Bank, as well as local institutions, including MutualOne Bank, Charles River Bank, Digital Federal Credit Union, Enterprise Bank, Cambridge Savings Bank, and Northern Bank & Trust Company.

There are no apparent financial or legal impediments that would limit the Bank's ability to help meet the credit needs of its assessment area. Based upon the Bank's asset size, product offerings, and branch network, its ability to meet the community's credit needs remains strong. The Bank's CRA performance was deemed "Outstanding" at the previous evaluation on November 30, 2009 conducted jointly by the FDIC and Division.

Description of Assessment Area

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. An assessment area should consist of whole geographies such as counties, cities, or towns. Further, an assessment area may not reflect illegal discrimination and may not arbitrarily exclude any low- or moderate-income areas, taking into account the institution's size and financial condition.

The Bank's most recent assessment area is composed of the 54 cities and towns as detailed in Table 2.

Table 2 – Assessment Area Cities and Towns		
Middlesex County		
Acton	Holliston	Sherborn
Ashland	Hopkinton	Shirley
Ayer	Hudson	Stow
Bedford	Lexington	Sudbury
Boxborough	Lincoln	Townsend
Carlisle	Littleton	Tyngsboro
Chelmsford	Marlborough	Waltham
Concord	Maynard	Wayland
Dunstable	Natick	Westford
Framingham	Newton	Weston
Groton	Pepperell	
Norfolk County		
Bellingham	Medway	Walpole
Dover	Millis	Wellesley
Franklin	Needham	Wrentham*
Medfield	Norfolk	
Worcester County		
Berlin	Hopedale	Southborough
Blackstone	Mendon*	Upton
Bolton	Milford	Westborough
Harvard	Northborough	

*new municipalities added since the prior evaluation

The 32 municipalities located in Middlesex County are part of the Cambridge-Newton-Framingham, Massachusetts (MA) Metropolitan Division (MD) #15764. The Norfolk municipalities are located in the Boston-Quincy, MA MD #14484. Both MDs are part of the larger consolidated Boston-Cambridge-Quincy, MA-NH Metropolitan Statistical Area (MSA)/Core Based Statistical Area (CBSA) #14460. The Worcester County municipalities are within the Worcester, MA MSA #49340.

Through 2012, there were no changes to the assessment area since the previous evaluation. However, as a result of the release of 2010 Census data in 2012, the 2012 assessment area demographics changed from 2011. In 2011, the assessment area contained 168 census tracts, consisting of 2 low-income census tracts, 13 moderate-income census tracts, 62 middle-income census tracts, 90 upper-income census tracts, and 1 census tract with no applicable income level. In 2012, the assessment area contained 181 census tracts, consisting of 1 low-income census tract, 18 moderate-income census tracts, 61 middle-income census tracts, 100 upper-income census tracts, and 1 census tract with no applicable income level. The census tract with no income designation in 2011 is the site of the former Fort Devens military base in Harvard. This tract became a moderate-income census tract with the release of the 2010 Census data. However, the 2010 Census added a different tract with no income designation; a military training facility in Sudbury. The remaining description of the assessment area refers to 2010 Census data.

In 2013, the Bank added the municipalities of Wrentham and Mendon. These municipalities include four additional upper-income census tracts and will be included in the analysis of CRA activity for 2013 only.

Table 3 – Assessment Area Demographic Information						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA
Geographies (Census Tracts-2012)	181	0.6	9.9	33.7	55.2	0.6
Population by Geography (2012)	923,172	0.5	8.4	35.5	55.6	0.0
Owner-Occupied Housing by Geography (2012)	250,057	0.1	5.0	36.0	58.9	0.0
Businesses by Geography (2011)	107,223	0.6	5.8	34.3	59.2	0.1
Businesses by Geography (2012)	108,159	0.2	7.6	34.2	58.0	0.0
Distribution of Families by Income Level (2012)	234,764	14.6	13.6	19.4	52.4	
Median Family Income (MFI) 2011		\$93,140	Median Housing Value		\$485,107	
Median Family Income (MFI) 2012		\$100,838	Unemployment Rate (2010 U.S. Census)		3.5%	
MSA#14484 MFI 2011		\$87,600				
MSA#14484 MFI 2012		\$88,800	Families Below Poverty Level (2012)		3.3	
MD #15764 MFI, 2011		\$105,000				
MD #15764 MFI, 2012		\$106,400				
MSA #49340 MFI, 2011		\$82,500				
MSA #49340 MFI, 2012		\$83,600				

Source: 2000 and 2010 U.S. Census, 2011 and 2012 D&B data, 2011 and 2012 HUD Estimated Median Family Incomes

Based on the 2010 Census data, the Bank's assessment area has a total population of 923,172 people. There are 330,488 households, of which 234,764 are families. Additionally, 250,057 owner-occupied housing units are present within the assessment area with the majority of the units in upper-income census tracts at 58.9 percent followed by middle-income tracts at 36.0 percent. The high percentage of upper-income geographies indicates this is a wealthy assessment area, which likely limits opportunities for community development activities.

Median Family Income Levels

According to 2010 Census data the assessment area contains 234,764 total families. The Federal Financial Institutions Examination Council (FFIEC) adjusted Median Family Income ("MFI") for the Cambridge-Newton-Framingham MD was \$100,838 in 2012. This MD contains the majority (58.2 percent) of the assessment area's cities and towns. The breakout of families by income level, in 2012, is as follows: 14.6 percent are low-income, 13.6 percent are moderate-income, 19.4 percent are middle-income, and 52.4 percent are upper-income. Further, 3.3 percent of the assessment area families are below the poverty level. The high percentage of upper-income families (52.4 percent) highlights the affluent nature of the assessment area.

Housing Characteristics

Housing units within the assessment area total 347,481, of which 250,057, or 72.0 percent, are owner-occupied, and 80,431, or 23.1 percent, are occupied rental units, while 16,993, or 4.9 percent, are vacant. Of the owner-occupied units within the assessment area, 0.1 percent are in low-income census tracts, 5.0 percent are in moderate-income census tracts, 36.0 percent are in middle-income tracts, and 58.9 percent are in upper-income tracts. With over 90.0 percent of owner-occupied units within the assessment area's middle- and upper-income census tracts it's

expected that that there will be limited home mortgage loans made in the low- and moderate-income tracts.

As displayed in Table 3, the assessment area median housing value is \$485,107. Sale prices within the assessment area have risen steadily during the evaluation period, ranging between an average median home sales price of \$394,000 in 2010 and \$423,000 in 2013. During the evaluation period the median home sales price ranged from a low of \$208,000 in Blackstone to a high of \$899,000 in Wellesley. This suggests a relatively expensive assessment area in terms of housing, compared to the entire State. High home values suggest limited opportunities for low- and moderate-income individuals to afford homeownership in the assessment area.

Competition

The Bank faces significant competition within the assessment area. In 2011, there were 478 lenders, which included large regional and national banks and mortgage companies that originated 62,843 residential mortgage loans within the assessment area. Middlesex Savings Bank ranked 18th with a market share of 1.3 percent. For small business loans, Middlesex Savings Bank ranked 17th out of 119 lenders within the area that distributed 54,109 small business loans in 2011.

Unemployment Data

State, county, and municipality unemployment rates were obtained from the Bureau of Labor Statistics. As of July 2013, the Massachusetts unemployment rate is 7.2 percent. By comparison, the Middlesex County unemployment rate is 5.9 percent. The average unemployment rate within the Norfolk and Worcester counties is 6.2 percent. Of the individual towns reviewed, the highest unemployment rate is in Blackstone, at 9.7 percent. The lowest unemployment rate is in the town of Harvard, at 4.7 percent. Overall, the assessment area has a relatively low unemployment level compared to the rest of the State.

Business Demographic Data

The number of non-farm businesses in the assessment area increased from 2011 to 2012. There was a higher concentration of businesses in moderate-income census tracts in 2012, compared to low-income census tracts. This is commensurate with changes in census tract income levels as a result of the 2010 U.S. Census. Dun & Bradstreet (D&B) data revealed that 67.3 percent of businesses reported gross annual revenues (GARs) of \$1.0 million or less in 2011. This ratio increased to 72.1 percent in 2012. Approximately 65.8 percent of all businesses in the area employ between 1 and 4 individuals. While economic challenges during the review period may have limited credit demand from small businesses, there appears to be a high percentage of small businesses in the assessment area.

Community Contact

Two community contacts were conducted for this examination, both within Middlesex County. One organization focuses on economic development within the area, while the other focuses on human services for the neediest individuals within the community.

The first contact explained that the greatest need for small businesses was gap financing. The downturn of 2008 increased the vacancy rates of office space, which continues to hinder economic recovery in the area. An increase in interim financing or a loan fund for small businesses could help spur development of startup businesses. Tax incentives would also assist

with job creation within the area. The contact was pleased with the support provided by a number of local financial institutions in the community.

The second contact identified the high cost of housing and affluent nature of the area as creating additional pressures on the most financially vulnerable members of the community. The contact also identified access to credit as a significant business need within the area, along with employment, infrastructure, and childcare access for low- and moderate-income individuals. Overall, the organization was very pleased with the involvement of local financial institutions, and named Middlesex Savings Bank as a very active bank within the community. The contact specifically noted the Bank's willingness to lend, and general amenability to hearing complaints.

The second contact also noted a limited branch presence from local banks within the downtown Framingham area. The lack of branches creates barriers to individual banking services. Along with an increased branch presence in downtown Framingham, the contact suggests increased ethnic, racial, and gender diversity in the loan origination staff, as first generation Americans are a growing segment of the population.

SCOPE OF EVALUATION

This evaluation assessed Middlesex Savings Bank's CRA performance utilizing "Large Bank" procedures, as established by the FFIEC. These procedures require three performance tests: the Lending Test, Investment Test, and Service Test.

The Lending Test considered the Bank's home mortgage and small business lending. Although a very small portion of the Bank's loan portfolio consists of loans secured by farmland, no small farm loans were originated during the evaluation period. Therefore, this product line was not reviewed. Additionally, consumer loans represent only 0.5 percent of total loans, and were not included in the current lending analysis. The Bank's most recent Report of Condition and Income ("Call Report"), dated June 30, 2013, indicated residential lending, including all loans secured by 1-4 family and multi-family residential properties, represented 55.5 percent of the loan portfolio. Commercial lending, consisting of commercial real estate and commercial and industrial loans, represented 37.4 percent of the loan portfolio. Residential lending also represented the majority of loan volume during the review period. Therefore, the Bank's performance in home mortgage lending carried greater weight in the Lending Test.

Data reviewed included all originated home mortgage loans reported on the Bank's Home Mortgage Disclosure Act ("HMDA") loan application registers ("LARs") for 2011 and 2012 and the first six months of 2013 (year-to-date (YTD) 2013). The LARs contain data about home purchase and home improvement loans, including refinances of 1-4 family and multi-family properties. The Bank reported 1,132 loans totaling \$358.5 million in 2011; 1,303 loans totaling \$481.9 million in 2012; and 229 loans totaling \$84.4 million in YTD 2013. The evaluation focused on lending performance in 2011 and 2012. The Bank's 2011 home mortgage lending performance was compared against 2011 aggregate lending data; 2012 aggregate data was not available as of the evaluation date. Aggregate data includes the lending activity within the Bank's assessment area of all institutions subject to HMDA reporting. Loan activity in YTD 2013 was analyzed for trend purposes and is referenced primarily in narrative form.

Small business loans were also reviewed for the same period. As a large bank, the CRA requires Middlesex Savings Bank collect and report small business lending data. The Bank reported 443 small business loans totaling \$91.2 million in 2011; 444 loans totaling \$69.7 million in 2012; and 262 loans totaling \$43.2 million in YTD 2013. The LARs contain information on originated commercial real estate and commercial and industrial loans with original balances of \$1 million or less. The Bank's performance was compared to 2011 aggregate data, which includes all small business loans reported in the counties that comprise the assessment area. This excludes activity of many institutions not required by the CRA to report this data.

The Bank also collected data in 2011 and 2012 related to loans for commercial or industrial purpose secured by residential real estate. Although these loans are not eligible to be reported as small business loans, the CRA provides banks with the option to collect data related to these loans to supplement its small lending data. The Bank made 39 loans totaling \$19.1 million in 2011 and 28 loans totaling \$9.3 million in 2012. Discussion of this loan activity occurs within the small business lending portions of the Lending Test.

The evaluation also considered community development lending as well as flexible lending programs during 2011, 2012, and YTD 2013.

Demographic information from both the 2000 U.S. Census and 2010 U.S. Census was referenced in this evaluation. Lending data from 2011 was analyzed using 2000 U.S. Census data, while 2012 and YTD 2013 lending data was compared to 2010 U.S. Census data. Other financial data was generally obtained from the June 30, 2013 Call Report, unless otherwise noted.

The Investment Test and Service Test considered the number and dollar amount of qualified investments and community development services between November 30, 2009 and September 11, 2013.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The Lending Test evaluated the Bank's record of helping to meet the credit needs of its assessment area by considering home mortgage, small business, and community development lending. As noted in the *Scope of Evaluation* section, small farm and consumer loans were not included in this analysis. Emphasis was placed on home mortgages and small business loans, as these products reflect the Bank's lending focus. The institution's lending performance was evaluated pursuant to the following criteria:

- Volume of lending activity or level of lending;
- Proportion of lending within the assessment area;
- Geographic distribution;
- Borrower profile;
- Quality and volume of community development lending; and
- Use of innovative or flexible lending practices.

Middlesex Savings Bank is rated "High Satisfactory" in the Lending Test. The following sections address the Bank's performance by Lending Test component throughout the assessment area.

LENDING ACTIVITY

Loan to Deposit (LTD) Ratio

The LTD ratio measures the percentage of the Bank's deposit base that is reinvested in the form of loans, and evaluates its appropriateness. The Bank's average net LTD ratio was 63.1 percent and is considered to be reasonable given the institution's size, resources, business strategy, and assessment area credit needs.

The average net LTD ratio was calculated by averaging the Bank's 15 quarterly LTD ratios since the previous CRA evaluation. The Bank's average LTD ratio was less than the average LTD ratio of two of the three similarly situated financial institutions. The similarly situated financial institutions were selected because of their similar asset size, product mix, and market area.

During the 15 quarters since the previous examination, the Bank's LTD ratio displayed a general trend of growth, with a low of 60.8 percent at December 31, 2010 and a high of 68.9 percent at June 30, 2013. The Bank experienced significant loan growth over the past 15 quarters. Net loans increased by \$260.5 million, or 12 percent, from approximately \$2.2 billion to \$2.4 billion. Deposits for the same time period increased 2.9 percent from approximately \$3.4 billion to \$3.5 billion. The increase in loan growth is attributed primarily to the relatively low interest rates during the evaluation period. Additionally, it is important to note that the Bank sold 703 loans totaling approximately \$172 million over the same timeframe. The sale of loans impacts the LTD ratio.

Lending Volume

Overall, the Bank displayed a good responsiveness to assessment area credit needs considering the size of the institution, loan portfolio composition, and high level of competition within its designated assessment area.

Home Mortgage Lending

In 2011 the Bank made 876 loans for a total amount of \$270 million. In 2012 the Bank made 996 loans for a total of \$362 million. As mentioned above, the primary area of growth was in refinance originations, which suggests the decreasing interest rates may be driving this volume. This is further supported by the first two quarters of 2013 HMDA data, where the time period characterized by a rise in interest rates was coupled with a decrease in overall originations. For the first two quarters of 2013, the Bank originated 179 loans for \$65 million. For the time period evaluated, 77.0 percent of all HMDA reportable loans originated by the Bank were inside its assessment area.

The 2011 market share reports revealed that the Bank ranked 18th out of 478 mortgage lenders which originated or purchased home mortgage loans inside the its assessment area with a share of 1.3 percent. Of the 17 higher ranked home mortgage lenders, only one was locally chartered, Eastern Bank (ranked 16th). All others were large regional or national institutions or mortgage companies.

Small Business Lending

From 2011 to 2012 there was a slight decrease in the number of loans originated inside the assessment area from 373 to 362, respectively. The total dollar value of small business loans decreased from \$68.3 million in 2011 to \$50.4 million in 2012. Management attributes the decrease in number and dollar amount to a number of factors, including increased competition from local lenders, reluctance from local businesses to access credit, and a relatively stagnant economy. At the end of 2012, the Bank began employing strategies to increase its small business activity. The first two quarters of 2013 exhibited an uptick in originations, with a total of 262 loans for \$43.2 million.

Among the 119 small business lenders operating within the counties that comprise the assessment area, the Bank ranked 17th in 2011. The Bank represented the highest-ranked locally headquartered institution among large national banks and credit card companies.

ASSESSMENT AREA CONCENTRATION

Overall, a high percentage of home mortgage and small business loans were made inside the Bank's assessment area. Using the reported HMDA and small business information, 78.4 percent of the loans were originated inside of the assessment area by number, while 75.0 percent of the dollar volume was inside the assessment area. Please refer to Table 4 for details concerning the Bank's assessment area concentration.

Table 4 – Assessment Area Concentration

Loan Category or Type	Number of Loans					Dollar Volume				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$ (000)	%	\$ (000)	%	
Home Mortgage Loans										
2011										
Home Purchase	150	69.4	66	30.6	216	52,464	68.6	23,970	31.4	76,434
Refinance	595	78.5	163	21.5	758	181,576	76.4	56,018	23.6	237,594
Home Improvement	131	82.9	27	17.1	158	35,650	80.2	8,805	19.8	44,455
Total	876	77.4	256	22.6	1,132	269,690	75.2	88,793	24.8	358,483
2012										
Home Purchase	160	66.9	79	33.1	239	63,817	66.4	32,295	33.6	96,112
Refinance	678	77.0	203	23.0	881	245,008	75.4	79,849	24.6	324,857
Home Improvement	158	86.3	25	13.7	183	53,269	87.4	7,654	12.6	60,923
Total	996	76.4	307	23.6	1,303	362,094	75.1	119,798	24.9	481,892
2013										
Home Purchase	28	73.7	10	26.3	38	13,295	83.8	2,573	16.2	15,868
Refinance	126	77.8	36	22.2	162	44,839	74.0	15,759	26.0	60,598
Home Improvement	25	86.2	4	13.8	29	6,837	86.1	1,104	13.9	7,941
Total	179	78.2	50	21.8	229	64,971	77.0	19,436	23.0	84,407
Total Home Mortgage	2,051	77.0	613	23.0	2,664	696,755	75.3	228,027	24.7	924,782
Small Business Loans										
2011	373	84.2	70	15.8	443	68,280	74.8	22,946	25.2	91,226
2012	362	81.5	82	18.5	444	50,381	72.3	19,318	27.7	69,699
2013	213	81.3	49	18.7	262	31,155	72.1	12,081	27.9	43,236
Total Small Business	948	82.5	201	17.5	1,149	149,816	73.4	54,345	26.6	204,161
RE Secured Business Loans										
2011	24	61.5	15	38.5	39	14,031	73.5	5,064	26.5	19,095
2012	20	71.4	8	28.6	28	7,923	85.2	1,381	14.8	9,304
Total Real Estate Secured	44	65.7	23	34.3	67	21,954	77.3	6,445	22.7	28,399
Grand Total	3,043	78.4	837	21.6	3,880	868,525	75.0	288,817	25.0	1,157,342

Source: 2011, 2012, and 1/1/2013-6/30/2013 HMDA LARs, Bank Small Business, and Bank Residential Secured Loan Records

Home Mortgage Lending

Overall, the institution extended a majority of loans by number and dollar amount inside the assessment area. More emphasis is placed on the percentage of loans, by number, since it has more of a direct correlation to the number of borrowers served.

Table 4 also shows the composition of loans inside and outside the assessment area by loan purpose. As mentioned above, there is an increasing trend for the number of loans made inside the assessment area, particularly refinance originations (2011-2012). For the time period evaluated, 77.0 percent of all HMDA reportable loans originated by the Bank were inside its assessment area.

Small Business Lending

The majority of small business loans were **originated** inside the assessment area for the evaluation period. Overall 82.5 percent of small business loans were originated inside of the assessment area. Additionally, residential secured business loans were also evaluated. While they are not technically small business loans, a majority were originated within the assessment area. Approximately 65.7 percent of these real-estate secured business loans were originated within the assessment area by number and 77.3 percent by dollar amount.

GEOGRAPHIC DISTRIBUTION

Overall, the geographic distribution of home mortgage and small business loans reflects adequate dispersion throughout the assessment area.

Home Mortgage Lending

As previously indicated in the *Description of Assessment Area* section, the assessment area changed from having 2 low-income and 13 moderate-income census tracts in 2011, to having 1 low-income and 18 moderate-income census tracts in 2012. It is important to note that the 1 low-income census tract has a small percentage of owner-occupied units, limiting the opportunity for mortgage lending activity in that tract. Table 5 shows a comparative analysis of the Bank's performance level of dispersion of HMDA reportable loans inside the assessment area compared to the 2000 U.S. Census percentage of owner-occupied units and aggregate performance levels for 2011. Additionally, based on the availability of the 2010 U.S. Census data, 2012 HMDA reportable loans are compared to the percentage of owner-occupied units in 2010.

Table 5 – Distribution of Home Mortgage Loans by Census Tract Income Level							
Census Tract Income Level	% of Total Owner- Occupied Housing Units*	2011 Aggregate Lending Data (% of #)	2011 Bank		% of Total Owner- Occupied Housing Units**	2012 Bank	
			#	%		#	%
Lower	0.3	0.1	3	0.3	0.1	0	0.0
Moderate	3.7	2.7	13	1.5	5.0	20	2.0
Middle	36.9	30.8	298	34.0	36.0	303	30.4
Upper	59.1	66.4	561	64.1	58.9	673	67.6
N/A	0.0	0.0	1	0.1	0.0	0	0.0
Total	100.0	100.0	876	100.0	100.0	996	100.0

Source: 2000 and 2010 U.S. Census Data; 2011 and 2012 HMDA Data

As indicated in Table 5, the majority of originations occurred in upper-income census tracts followed by middle-income tracts. In 2011 the Bank originated 3 loans in the 2 low-income census tracts. The proportion of aggregate low-income tract lending, and the 2000 demographics of owner-occupied housing units within the same low-income tracts was 0.1 and 0.3 percent, respectively. In 2012, no loans were originated in the 1 low-income census tract. Management noted that along with the decreasing owner-occupied housing demographic, there are two factors limiting opportunity to lend within this low-income census tract. First, Framingham housing values have yet to recover from the downturn in 2008 and these lower valuations have made

refinance originations difficult. Second, a number of homes in and around the low-income census tract are being absorbed by investors with little to no need for Bank financing.

It should also be noted that 2011 market rank reports indicated that only 35 lenders, of the 478 which operated inside the assessment area, originated or purchased loans in the two low-income census tracts. Of the 35 active lenders that originated or purchased loans in the low-income census tracts only 1 lender originated or purchased 10 or more loans. The Bank originated 3 loans in these tracts, along with 3 other lenders, giving it a shared market rank of 5th. Additionally, Middlesex Savings Bank was the highest-ranked locally chartered financial institution among mortgage companies and national banks.

In 2011, the Bank originated 13 loans within moderate-income census tracts. The Bank's percentage is below both the aggregate lending performance as well as the area demographics, at 2.7 and 3.7 percent, respectively. In 2012, the Bank improved by originating 20 loans within moderate-income tracts, or 2.0 percent. However, this performance was still below the demographic of owner-occupied housing within the same areas. It is notable that in addition to the mitigating factors regarding penetration of low-income census tracts, the Bank has a limited branch presence within moderate-income geographies. The Bank has just one branch in a moderate-income geography in Framingham. Additionally, there are no branches in Waltham or any of its bordering municipalities. Waltham has the highest proportion of moderate-income census tracts within the assessment area. The Bank attempted to improve its lending in areas with distressed properties, by offering a Purchase/Repair Loan program, a product that includes rehabilitation in addition to financing. During the evaluation period there have been no originations under this program.

Bank performance in 2013 was similar to that of 2012, with no loans originated in low-income census tracts, and 2 loans, or approximately 1.1 percent of loans originated in moderate-income census tracts.

The geographic distribution of the Bank's home mortgage lending reflects adequate dispersion throughout the assessment area.

Small Business Lending

Table 6 illustrates the Bank's performance in 2011 and 2012, as well as the distribution of businesses as reported by *D&B* for the same years and 2011 aggregate performance levels at the county level.

Table 6 – Distribution of Small Business Loans by Census Tract Income Level							
Census Tract Income Level	2011 % of Total Businesses	2011 Aggregate Lending Data (% of #)	2011 Bank		2012 % of Total Businesses	2012 Bank	
			#	%		#	%
Low	0.5	0.6	6	1.6	0.6	2	0.6
Moderate	5.6	5.2	13	3.5	9.8	18	4.9
Middle	35.6	35.6	159	42.6	33.7	134	37.0
Upper	58.2	58.5	195	52.3	55.3	208	57.5
N/A	0.1	0.1	0	0.0	0.6	0	0.0
Total	100.0	100.0	373	100.0	100.0	362	100.0

Source: 2011 and 2012 D&B Business Data; 2011 and 2012 CRA Registers, U.S. Census data

Table 6 illustrates that the combined percentage for low- and moderate-income census tract small business loans only represents about 5.1 percent and 5.5 percent of total small business loans in 2011 and 2012, respectively. There was a slight increase in the number of loans made in moderate-income census tracts, while small business loans in the low-income census tract decreased between 2011 and 2012. Additionally, no 2011 or 2012 residential secured business loans were originated in low- or moderate-income census tracts.

For low-income census tract originations, Bank performance exceeded the aggregate lending performance as well as the 2000 U.S. census demographic. In 2012, performance decreased in both proportion and number, drawing in line with 2010 census demographics of total business locations at 0.6 percent.

The Bank's performance for moderate-income census tract originations was below aggregate lending and U.S. Census data in 2011. The number of originations and proportion increased in 2012, but overall still drew short of the 2010 Census demographic for the same areas.

In 2013, no loans were originated in the low-income census tract, and 12 loans, or approximately 5.6 percent, occurred in moderate-income census tracts, similar to 2012 performance.

Overall, given the limited branch locations within low- and moderate-income census tracts, the Bank's geographic dispersion of small business loans is adequate.

BORROWER CHARACTERISTICS

Overall, the distribution of the Bank's residential loans by borrower income combined with the distribution of small business loans, by size of business, reveals excellent penetration throughout the assessment area.

Home Mortgage Lending

A review of the Bank's residential loans revealed excellent penetration among borrowers of different income levels, particularly those of low- and moderate-income.

Table 7 illustrates the Bank's 2011 and 2012 residential loans by borrower income, along with the percentage of families in each income category (based on respective 2000 and 2010 U.S. Census data) and the 2011 aggregate market percentages.

Table 7 – Distribution of Home Mortgage Loans by Borrower Income Level							
Income Level	% of Total Families*	2011 Aggregate Lending Data (% of #)	2011 Bank		% of Total Families**	2012 Bank	
			#	%		#	%
Low	12.5	3.5	73	8.3	14.6	67	6.7
Moderate	14.2	10.6	129	14.7	13.6	171	17.2
Middle	20.5	21.1	189	21.6	19.4	188	18.9
Upper	52.8	49.5	469	53.6	52.4	542	54.4
Income NA	0.0	15.3	16	1.8	0.0	28	2.8
Total	100.0	100.0	876	100.0	100.0	996	100.0

Source: 2000 and 2010 U.S. Census Data; 2011 and 2012 HMDA Data

As reflected in Table 7, the Bank extended 8.3 percent of all residential mortgage loans in their assessment area to low-income borrowers in 2011. This performance exceeds the aggregate lending performance of 3.5 percent. The Bank's percentage of lending to low-income borrowers decreased to 6.7 percent in 2012, along with the actual number of loans provided to borrowers within this income level. In both 2011 and 2012, the Bank's percentages were below the percentage of low-income families in the assessment area, 12.5 and 14.6 percent, respectively. This appears to indicate the difficulty lower-income borrowers may have qualifying for a home mortgage in a relatively affluent assessment area, particularly borrowers at or around the poverty level. Furthermore, in 2011, the Bank ranked 7th in lending to low-income borrowers, out of the 322 lenders that originated or purchased residential loans in the assessment area. The Bank's ranking is particularly notable given that it is the highest ranked State-chartered bank; the remaining six institutions were all national banks or mortgage companies.

Table 7 also shows that the Bank extended 14.7 percent and 17.2 percent of home mortgage loans to moderate-income borrowers in 2011 and 2012, respectively. This performance exceeds the percentage of moderate-income families in the assessment area in 2011 and 2012 (14.2 and 13.6 percent). The Bank's performance for 2011 also exceeds aggregate performance levels of 10.6 percent. Additionally, the increasing trend of lending to moderate-income borrowers is noted for 2012 by proportion, to 17.2 percent, the total volume of loans to borrowers of this income level increased. Market share reports for 2011 indicated that the Bank ranked 11th in its assessment area for lending to moderate-income borrowers. Again, the Bank is the highest ranked State-chartered bank, with its performance only exceeded by much larger national institutions or mortgage companies.

For the first two quarters of 2013, the lending to low-income borrowers rose to 10.1 percent, while the moderate-income borrower proportion fell to 12.9 percent.

Small Business Lending

Emphasis is placed on loans to small businesses with GARs of \$1 million or less. As shown in Table 8, in 2011, the Bank made 48.5 percent of all small business loans, by number, to businesses with GAR of \$1 million or less. This is less than the percentage of all businesses in that size category (67.3 percent); however, the Bank outperformed the aggregate. The gap between the demographic of lower revenue businesses and the lending trends appear commensurate with the community contact's identification of small business access to capital as a need. Additionally, competition with alternate forms of financing reduced the proclivity for small business loans that the bank offers. Management noted that a number of small or start-up businesses opt to use credit cards as opposed to pursue other small dollar loans through local financial institutions.

Table 8 – Distribution of Small Business Loans by Gross Annual Revenues (GARs)							
GAR \$(000)	2011 % of Total Businesses	2011 CRA Aggregate Data	2011 Bank		2012 % of Total Businesses	2012 Bank	
			#	%		#	%
≤ \$1,000	67.3	43.0	181	48.5	72.1	224	61.8
> \$1,000	3.8	*	164	44.0	5.2	133	36.7
Not Reported	28.9	*	28	7.5	22.7	5	1.5
Total	100.0	100.0	373	100.0	100.0	362	100.0

Source: 2011 and 2012 D&B Business Data; 2011 and 2012 CRA Registers

Performance levels for 2012 increased greatly from 2011, whereby the Bank originated 61.8 percent of its small business loans to businesses with GAR of \$1 million or less. This percentage is still less than that of all businesses in that size category (72.1 percent). During the first two quarters of 2013, the Bank maintained their improved performance with 63.8 percent of all originations being distributed to businesses with GAR of \$1 million or less. Given the level of competition and the economic conditions within the assessment area the trends are noteworthy.

Additionally, 2011 and 2012 residential secured loans showed similar improvement. In 2011, 50.0 percent of loans were originated to businesses with GAR of \$1 million or less and this proportion increased to 70.0 percent in 2012.

Given the comparison to aggregate lending, as well as the increasing trend, the Bank's dispersion of small business loans to businesses based upon GAR is considered adequate.

COMMUNITY DEVELOPMENT LENDING

Middlesex Savings Bank is a leader in originating community development loans, demonstrating a dedication to meeting the needs of the assessment area. During the evaluation period, Middlesex Savings Bank made or renewed 23 community development loans for a total of \$24.9 million. This performance represents an increase, by number, over the previous evaluation. The community development loans were distributed to a variety of organizations, primarily for the purposes of affordable housing and community and human service support. The record of community development lending is detailed in Table 9.

Table 9 - Community Development Loans												
Activity Year	Qualifying Category										Totals	
	Affordable Housing		Community Services*		Economic Development		Revitalization or Stabilization**		Neighborhood Stabilization Projects			
	#	\$(000)	#	\$(000)	#	\$(000)	#	\$(000)	#	\$(000)	#	\$(000)
2010	3	1,563	2	3,090							5	4,653
2011	1	2,250	2	2,197							3	4,447
2012	5	2,481	3	6,500							8	8,981
1/1/2013 - 8/30/2013	5	2,683	2	4,155							7	6,838
Total	14	8,977	9	15,942							23	24,919

Source: Bank Records

*Targeted to Low- or Moderate Income Individuals

**Of Low- or Moderate-Income, Disaster, Distressed, or Underserved Geographies

The following originations are a representative sample of the Bank's community development record:

- In 2010, the Bank originated a \$1.2 million construction loan for a 30-unit affordable housing project in Holliston Massachusetts. All units are affordable to individuals at or below 60.0 percent of the area median income.
- The Bank purchased a \$1.4 million bond in 2010 from a non-profit organization that provides housing and support services to individuals with disabilities throughout the Greater Boston area, including Middlesex County. The program recipients are primarily low- or moderate-income, and qualify for social security assistance. The funds were intended to provide financing for the purchase and construction of commercial real estate in communities in and around the Bank's assessment area.
- In 2011, the Bank purchased a \$1.2 million bond from a non-profit organization geared toward providing household goods free of charge to people in need. Donations of gently used furniture, kitchenware, and linens are all distributed to needy individuals throughout eastern Massachusetts. The funds were used to finance the acquisition of a commercial property that acts as the organization's headquarters.
- In 2012, the Bank originated a \$2 million loan for non-profit elderly housing. The housing consists of 62 units. To qualify, residents must fall within specific income limits for eligibility. Preference is given to those who have the greatest need for affordable housing. The majority of the residents are low- or moderate-income.

- In 2013, the Bank originated a \$2.2 million loan for the purchase of nine commercial properties, all of which provide social services (sober housing, recovery programs, family shelters) for disadvantaged communities throughout Worcester County. This project was a result of the collapse of the non-profit organization who originally administered these properties, and the new human services organization that assumed ownership of the programs, and had a preexisting relationship with Middlesex Savings Bank. In response to the need of a smooth transition to maintain the continuity of services, the Bank quickly assembled a portfolio with a reduced rate and waived commitment fees in order to complete the origination. The organization made note of the Bank's proactive approach to completing a critical project, and this instance is recognized as one example of the Bank's leadership in making community development loans.
- The Bank participated in a variety of 40B projects associated with the development of affordable units. One such project was a 2013 development in Natick, for \$6.3 million. Approximately 20 percent of the units were slated for low- or moderate-income individuals, resulting in a final CRA qualified amount of \$1.2 million.

Also, the Bank maintained a demand loan for a working capital line of credit for a non-profit organization which provides financial assistance, housing, adult education, and childcare support to low- and moderate-income individuals. The demand loan has been active since 2007, and was increased by \$1 million and \$1.5 million in 2011 and 2012, respectively. As a demand loan, the product is advantageous for small and non-profit businesses as there is no maturity date and it provides a constant flow of working capital even during periods of review. While the Bank does not receive quantitative credit, the Bank offers this product to several non-profit organizations specifically to meet their community development needs and is meeting a direct need of the Bank's assessment area.

INNOVATIVE OR FLEXIBLE LENDING PRACTICES

This criterion includes all innovative and flexible lending activities since the prior evaluation, covering the time period November 30, 2009 through September 11, 2013.

The Bank makes use of innovative and flexible lending programs to assist in meeting the credit needs of its assessment area. The majority of programs involve government-related subsidies and guarantees, in addition to limited internal programs. It is noted that the Bank created special programs in an attempt to meet specific needs of low- or moderate- income individuals or areas. The following highlights the various innovative and flexible loan programs offered by the Bank.

Home Mortgage Lending Programs

Middlesex Savings Bank offered several home mortgage loan products over the evaluation period.

- *Affordable Housing* – The Bank offers 30- and 40-year fixed-rate mortgages to low- and moderate-income borrowers to facilitate the purchase of deed restricted, affordable housing units. The loans allow for a reduced down payment, as well as flexible underwriting guidelines. For the period under review, the Bank originated 44 loans totaling \$6.4 million.

- *First Time Buyer* – The First Time Buyer program is another internal program offered by the Bank. The key feature of the program is a reduced down payment for both adjustable- and fixed-rate mortgages. The program is limited to single unit primary residences with maximum loan amounts of \$450,000. During the evaluation period, the Bank originated two loans under this program for a total of \$368,600.
- *Masshousing- MyCommunity* – A product designed by MassHousing, the purpose of the MyCommunity refinance program is to offer borrowers the option to refinance their existing single-family home mortgage for up to 100.0 percent of the appraised value (97.0 and 95.0 percent for two- and three-family homes, respectively) in an effort to reduce the rate and corresponding payment. Middlesex Savings Bank was one of the State-approved lenders to offer this program to low- and moderate income individuals. In 2010, the Bank originated one loan with this program for \$232,000.
- *Masshousing - Mortgage* – An affordable 30-year fixed-rate loan for first-time or repeat homebuyers, this product is primarily geared to assist low- and moderate-income borrowers. Along with a reduced rate, the product offers a low down payment as well as flexible underwriting and payment protection services. The Bank originated 58 MassHousing mortgage loans for a total of \$11.8 million during the review period.

Middlesex Savings Bank also provided no-interest financing in concert with specific Habitat for Humanity projects. While the loan itself is included in other aspects of the Lending Test, the transaction acts as an example of the Bank's commitment to flexible financing for a greater availability of affordable housing.

Small Business Lending Programs

In addition to its standard commercial loan programs, the Bank also offers the following flexible small business loan programs, in cooperation with a number of federal and state government organizations. These include the Small Business Administration (SBA), the Massachusetts Growth Capital Corporation, and the Massachusetts Capital Access Program.

- *SBA 7a Loan Programs* - This is the most common program within the SBA. The maximum loan amount is \$5 million, and most loans are guaranteed by the SBA at 75.0 percent of the value. During the evaluation period, Middlesex Savings Bank originated 9 loans for \$2.5 million. The majority of the loans originated under the program were Small Loan Advantage products, designed specifically to assist small businesses in underserved markets. In the most recent reports, Middlesex Savings Bank ranked 5th in SBA 7a originations out of the 40 active SBA lenders within the Massachusetts district. This also demonstrates the Bank's commitment to making credit accessible to small and startup businesses, a need mentioned by both community contacts.
- *SBA Express Loan Program* - This program is designed to offer borrowers an accelerated turnaround time for approval on loan amounts of up to \$350,000. Response to an application is made within 36 hours. The SBA provides a maximum guaranty of 50.0 percent, and no collateral is required for loans of \$25,000 or less. During the evaluation period, Middlesex Savings Bank originated 72 loans for \$7.3 million.

- *SBA Patriot Express* – This is identical to the SBA Express program, but is primarily for businesses owned by veterans of the U.S. Armed Services or other members of the military community. Features of the program include an increased approved loan amount of \$500,000, a guaranty of up to 85.0 percent depending on loan amount, and the accelerated turnaround of the Express Loan. During the evaluation period, Middlesex Savings Bank originated 10 loans totaling approximately \$1.4 million.
- *SBA 504 Loan Program* – This loan program provides long-term fixed asset financing made through a Certified Development Company (CDC). Generally, the loan structure includes a 10.0 percent equity investment by the small business, 40.0 percent participation from the CDC, and 50.0 percent participation by the Bank. During the evaluation period, Middlesex Savings Bank originated 41 loans totaling approximately \$30 million. In the most recent report, Middlesex Savings Bank ranked 5th in loan volume and SBA 504 originations out of the 85 active SBA lenders within the Massachusetts District, above larger national banks including Bank of America and TD Bank.
- *Massachusetts Capital Access Program (MassCAP)* – The Bank participates in the MassCAP and it is designed to help small businesses (with less than \$5 million in revenues) throughout Massachusetts obtain loans from participating banks. Using cash collateral guarantees from a loan loss reserve fund, this program enables banks to make loans they might otherwise be unable to grant. During the evaluation period the Bank originated 5 loans under this program totaling \$90,300.
- *U.S. Department of Agriculture (USDA): Community Facilities Direct and Guaranteed Loans* – The USDA program is directed toward the development of essential facilities in rural areas. The loans and guarantees are available to public entities as well as non-profit corporations. The Bank originated one, \$1.5 million loan with this program during the review period.
- *USDA: Business and Industry (B&I) Guaranteed Loans* – The purpose of the B&I guaranteed loan program is to improve or develop the economic climate in rural communities. This is performed by guaranteeing quality loans that bring a lasting impact to the community. The borrower must be engaged in a business that will generate employment, improve the economic or environmental climate, or promote conservation or the use of renewable energy resources. During the review period, the Bank originated one loan for \$2 million.

INVESTMENT TEST

The Investment Test evaluates an institution's record of helping to meet credit needs through qualified investments that benefit the assessment area or a broader statewide or regional area that includes the Bank's assessment area. A qualified investment is defined as a lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Community development purposes include those that either: 1) provide affordable housing for low- or moderate- income individuals or areas; 2) provide community services targeting low- or

moderate-income individuals or areas; 3) promote economic development by financing small businesses; 4) revitalize or stabilize low- or moderate-income geographies; or 5) support, enable or facilitate eligible projects or activities in accordance with the Neighborhood Stabilization Plan. Activities considered under the Lending or Service Test may not be considered under the Investment Test.

The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors. Per the regulation, qualified investments considered in this evaluation include all those acquired or made since the previous CRA evaluation as well as those made in prior periods and still held by the institution.

Middlesex Savings Bank's Investment Test performance is "Outstanding." The Bank had an excellent level of qualified investments, making significant use of innovative or complex initiatives given the limited opportunities for qualified investments in such a wealthy assessment area. These investments provided excellent responsiveness to community development needs. The Bank's qualified investments benefited communities throughout the entire assessment area.

Qualified Investments

The amount of the Bank's total qualified investments, commitments and grants is \$17.5 million. This total includes \$15.9 million in equity investments and \$1.6 million in qualified grants and donations. The Bank acquired \$8.5 million in new equity investments since the last evaluation. The high level of investments demonstrates the Bank's leadership in funding community development initiatives that support the assessment area. This level of qualified investments is noteworthy since opportunities were limited due to the affluent nature of the assessment area.

Equity Investments

Qualified equity investments total \$15.9 million. This represents an increase of over 200 percent from the Bank's performance at the previous evaluation. Bank management made a concerted effort to seek out equity investment opportunities that were responsive to the area's needs. As noted previously, assessment area demographics indicate limited community development needs/opportunities compared to other portions of Massachusetts. The affluent nature of the assessment area made it difficult to identify qualified investments.

A total of seven equity investments primarily supported affordable housing and economic development activities. Each investment is described below. New investments receive credit for the full purchase amount, while existing investments receive credit for the current book value. The Bank provided book values as of July 31, 2013. Each of the equity investments directly benefited the assessment area or a broader State-wide area that included the assessment area. Again, the affluent nature of the assessment area made it difficult to identify qualified investments. The significant increase since the last evaluation is noteworthy.

Old Acton High School – The Bank began supporting the Old Acton High School affordable housing project in June 2011 with a series of investments that total \$757,030. The investment supports the conversion of the former Acton High School into 15 units of affordable housing.

The project is funded through a partnership comprised of the Massachusetts Housing Partnership, Massachusetts Housing Investment Corporation, and local lenders. This project is particularly responsive to the needs of the assessment area. Affordable housing is a significant obstacle for low- and moderate-income individuals and families based on very high home values.

CRA Qualified Investment Fund – In December 2010 the Bank invested \$5 million in the CRA Qualified Investment Fund managed by Community Capital Management (CCM). The fund's objective is to provide a high level of current income consistent with the preservation of capital, and to provide investments that are deemed to be qualified under the CRA. CCM seeks to allocate the Bank's funds within its assessment area. Fund investments have financed the creation of affordable rental housing units, home mortgages, down payment assistance, job training and job creation programs, and neighborhood revitalization. Investments are allocated to municipal bonds, GNMA and FNMA loan pools, and FHA programs.

Soloman Hess SBA Loan Fund, LLC – In 2010 the Bank invested \$2 million in this economic development fund. The fund invests in loans guaranteed by the SBA that are made to businesses in low- or moderate-income areas or that employ low- or moderate-income individuals. Such loans provide capital to these businesses at a lower cost than traditional credit, allowing for permanent job creation, retention, and improvement for low- and moderate-income areas and individuals.

BCA Mezzanine Fund II, LP – Starting in December 2012 the Bank invested \$724,807 of a \$2 million commitment to support this economic development fund. This fund provides traditional mezzanine financing to smaller businesses. These financing efforts allow small businesses to expand and create additional jobs.

Access Capital Strategies Community Investment Fund, Inc. (ACSCIF)– The Bank purchased this investment in 1999 and the current book value is \$5 million. The ACSCIF is a SEC-registered fund structured as a business development corporation. The primary purpose of the fund is to provide a secondary market and financing vehicle for community development loans. The fund invests private placement debt securities that support affordable housing, education, small business loan securitization, and other job creating investments. The Bank targeted its funds to support efforts in Massachusetts (including the assessment area).

MB Capital Fund III, LLC – The Massachusetts Business Development Corporation manages this fund that provides a financing outlet to established small businesses in need of growth capital. The fund seeks to stimulate economic growth and promote job creation and retention in the New England area. Purchased in 2006, the current book value of this investment stands at \$1.3 million.

BCA Mezzanine Fund I, LP – This fund seeks to invest in growing companies at the first stage and later stages of development. These companies typically have an established product or service but have difficulties in obtaining capital through traditional sources. Focus markets include manufacturing, distribution, and servicing companies. These funds promote job creation, retention, and improvement for low- and moderate-income individuals and areas.

SEED Ventures, LP – This investment supports the South Eastern Economic Development Corporation (SEED). SEED works with banks and the SBA to create financing packages that allow small businesses to expand and create additional jobs. The current book value of the Bank's investment is \$111,224.

Charitable Contributions

The Bank makes qualified donations directly and through the Middlesex Savings Bank Charitable Foundation (Foundation). The Bank established the Foundation to provide financial support to local community groups. The Bank directly donated approximately \$1.1 million to charitable organizations since the previous evaluation. Of this total, \$621,121 (59.1 percent) was qualified for CRA purposes. Approximately \$1.2 million was donated from the Foundation during the review period, with \$933,134 (74.9 percent) being qualified for CRA purposes. With the exception of a \$20,000 contribution to the Gulf Coast disaster recovery assets, all qualified grants, and donations benefitted the Bank's assessment area or the broader statewide or regional area including the Bank's assessment area. These funds primarily supported organizations that provide community services to low- and moderate-income individuals and families.

While the level of qualified grants and donations are significant, it is important to note that the Bank significantly increased its contributions since the previous evaluation. In combination between the Foundation and direct Bank donations, the level of qualified contributions increased \$581,238.

Table 10 details all qualified donations made during the review period by year and community development category.

Table 10 - Community Development Grants and Donations												
Activity Year	Qualifying Category										Totals	
	Affordable Housing		Community Services*		Economic Development		Revitalization or Stabilization**		Neighborhood Stabilization Projects			
	#	\$	#	\$	#	\$	#	\$	#	\$	#	\$
11/30/2009-12/31/2010	10	56,500	158	363,523	2	10,000	2	25,000	0	0	172	455,023
2011	2	1,200	128	430,117	2	15,000	0	0	0	0	132	446,317
2012	1	15,000	134	365,375	1	1,000	0	0	0	0	136	381,375
1/1/2013-9/11/2013	0	0	66	265,040	1	6,500	0	0	0	0	67	271,540
Total	13	72,700	486	1,424,055	6	32,500	2	25,000	0	0	507	1,554,255

Source: Bank Records

*Targeted to Low- or Moderate-Income Individuals

** In Low- or Moderate-Income, Disaster, Distressed, or Underserved Geographies

The following is a sample of organizations supported by the Bank and the Foundation.

Bethany Hill School – This institution is an educational housing program for low-income adults and children sponsored by the Sisters of St. Joseph of Boston. It requires involvement in education and/or training as a condition of residency and provides meaningful in-house programming and support to enable residents to meet this requirement.

Boys & Girls Clubs of MetroWest – This organization provides social, educational, physical and cultural programming for boys and girls in the MetroWest area regardless of ability to pay. The intent of these programs is to enhance the development of children and to prepare young adults to be responsible and productive members of the community. The organization's community services primarily benefit low- and moderate-income individuals.

Food Pantries – The Bank made annual donations to over 30 food pantries throughout the assessment area. These efforts are critical to meeting the basic needs of low-income individuals that live in otherwise affluent communities in the assessment area.

Greater Worcester Community Foundation Scholarships – The Bank's Foundation provided annual scholarships to one graduating senior from each high school, including vocational schools, which primarily serve the Bank's 24 branch municipalities. The criteria for these awards include demonstrating financial need. Additionally, recipients exhibit a commitment to community service. These awards primarily benefit students from low- or moderate-income families.

The Walker School – This organization has a mission of “teaching, caring and building hope for the most troubled children and youth, their families, and those who serve them.” One of the organization's major programs is The Walker School, which is a special education day school with clinical and psychiatric care. The organization also has an intensive treatment program and an alternative high school that works with school systems to expand the capacity to educate troubled students. The organization's programs exclusively serve low-income children that have no financial resources other than the Massachusetts Department of Children and Families.

Wayside Youth & Family Support Network – This community service organization provides a wide range of services to at-risk youth and their families. These services include a residential treatment program and a young adult resource program to assist those transitioning out of the State's youth-related services. These services primarily benefit low- and moderate-income individuals and families.

SERVICE TEST

The Bank's Service Test performance is rated “Outstanding.” The Service Test evaluates an institution's record of helping to meet the credit needs of its assessment area by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services.

Middlesex Savings Bank has an effective system for delivering retail banking and community development services to the assessment area. The Bank's branches, all with 24-hour automated

teller machines (ATM), are located throughout the assessment area and are accessible and convenient to low- and moderate-income residents and low- and moderate-income census tracts. Generally, the services and products offered are comparable to similarly sized competitors.

In meeting community development service needs, the Bank was a leader in its efforts and in offering its financial expertise to community development groups in the assessment area. In particular, Bank officers have taken leadership roles within community organizations whose mission and programs provide significant support to the neediest areas of the assessment area. In many instances, the Bank was the only financial institution involved in providing expertise and program support to local community development organizations meeting the most pressing community development needs in the assessment area, such as free financial education to the one low-income geography and to low- and moderate-income individuals that are first-generation Americans.

Retail Banking Services

An institution's retail banking services are evaluated pursuant to the following criteria:

- 1) the distribution of the institution's branches among geographies of different income levels;
- 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals;
- 3) the availability and effectiveness of alternate systems for delivering retail banking services; and the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

The Bank's retail services are accessible to all customers including low- and moderate-income individuals and residents of the moderate-income geographies of the assessment area. Bank services include various deposit products and residential and commercial loan products. Changes in branch locations did not adversely affect the accessibility of services. Banking hours and services do not vary in a way that that inconveniences any portion of the assessment area.

Accessibility of Delivery Systems

The Bank's delivery systems are accessible to all portions of the assessment area. Bank locations are distributed in such a way that no portion of the assessment area is inconvenienced. Alternative delivery systems are available to supplement the Bank's branches.

Distribution of Branches

In addition to its main office, Middlesex Savings Bank operates 29 full-service branches located in the following communities: Acton (2); Ashland; Bedford; Bellingham; Boxborough; Concord (2); Framingham (3); Franklin; Groton; Holliston; Hopkinton; Littleton; Maynard (2); Medfield; Medway; Milford; Millis; Natick (main office); Needham; Southborough; Sudbury; Wayland(2); Wellesley; and Westford. There are 18 located in upper-income geographies, 11 in middle-income geographies, and 1 in a moderate-income geography. All branches offer the Bank's complete line of loan products and most offer drive-up service. The branch located in a

moderate-income geography, Worcester Road in Framingham, has both a drive-up teller and a drive-up ATM.

Automated Teller Machines (ATMs)

Bank ATMs are located at each of the branch offices providing 24-hour account access. In addition to ATMs located at branch locations, Middlesex Savings Bank also has four cash-dispensing ATMs and four full-service ATMs that accept deposits. There are four ATMs (two full-service) in upper-income geographies, three ATMs (two full-service) in middle-income geographies, and one ATM in a moderate-income geography in Framingham. The Bank is also a member of the SUM ATM Network. As a result of its involvement in the SUM program, Bank customers can avoid ATM surcharges at other participating ATMs.

Commercial Lending Offices

The bank has four loan production offices staffed with commercial lenders. These are located in Concord, Franklin, Waltham, and Westborough, representing one middle- and three upper-income geographies. The Waltham office is in a middle-income geography.

In addition to the branch network, ATMs, and commercial lending offices, Middlesex Savings Bank also provides a variety of alternative delivery systems. These alternatives allow consumers easier access to the Bank's various retail services, and include:

Information Center – Staffed by customer service representatives, the center assists customers with numerous functions related to their accounts. The Information Center is available Monday through Friday from 7:00 A.M. to 9:00 P.M. and Saturday from 8:30 A.M. to 3:00 P.M.

Online Banking – Available to consumers and many businesses free of charge, this service allows customers to view account balances, transfer funds, and make loan payments through the bank's website. Free bill payment is also available to checking account customers.

Debit Cards – The Middlesex Savings Bank debit card allows customers to pay for purchases at merchant locations that accept Visa and have the funds deducted directly from their checking account at no charge.

Telephone Banking – The Bank operates a 24/7 automated phone banking system that allows customers to access account information, check balances, transfer funds between accounts, and make loan payments. The service is free of charge and also includes a Spanish language option.

Mobile Banking – Customers can access account information through a phone or mobile device to view balances, transfer funds between accounts, make loan payments, and pay bills.

Bank-by-Mail – All customers can perform account transactions by mail free of charge.

Multi-lingual Services – Approximately 78 of the Bank’s employees speak 31 different languages, including Spanish, Portuguese, Russian, and Indian. The Bank maintains this information on its internal Intranet so that employees can access these resources as necessary. These services are critical. Assessment area demographics and a community contact indicate that a large portion of low- and moderate-income individuals in the Bank’s community are first-generation Americans.

Changes in Branch Locations

The Bank’s record of opening and closing branches did not adversely affect the accessibility of its delivery systems to low- and moderate-income geographies or individuals in its assessment area. The Bank maintains an Office Relocation, Consolidation and Closing Policy that outlines factors that are considered when deciding to relocate, consolidate, or close a branch office. The Bank opened two branches and closed four branches since the previous evaluation. Both of the new branches are in upper-income tracts, while two of the closed branches were in middle-income tracts and two were in upper-income tracts.

Reasonableness of Hours/Services

Overall, business hours do not vary in a way that inconveniences portions of the assessment area, particularly low- and moderate-income individuals. Branch hours are consistent at each location with weekday hours generally from 8:30 A.M. to 5:00 P.M. Branches with drive-up service and the main office open 30 minutes earlier. All branches offer extended hours on Thursday evenings and Saturday hours of 9:00 A.M. to 1:00 P.M. ATM, mobile, and online banking are available 24 hours a day, 7 days a week.

Community Development Services

An institution's community development services are evaluated pursuant to the following criteria:

- 1) the extent of community development services offered and used;
- 2) the innovativeness of community development services, including whether they serve LMI customers in new ways or serve groups of customers not previously served;
- 3) the degree to which they serve LMI areas or individuals; and
- 4) the responsiveness to available opportunities for community development services.

The CRA regulation defines a community development service as a service that is primarily for community development purposes and is related to the provision of financial expertise. The Bank was a leader in providing community development services in the assessment area during the evaluation period.

Officer Involvement

The Bank devotes time and resources to assisting with community development initiatives within its assessment area by having representatives serve in leadership roles in community-based organizations. The following are examples of the organizations in which Bank officers are involved. These examples demonstrate the Bank’s leadership in responding to the most critical community development needs in the assessment area. In many cases, the Bank was the only

financial institution providing financial expertise and program support to community development initiatives. Middlesex Savings Bank is considered the go-to institution for several organizations that meet significant community development needs in the Bank's assessment area.

Framingham Downtown Renaissance, Inc. – This non-profit corporation was set up to facilitate the development of downtown Framingham as a vibrant commercial and residential/mixed-use downtown center. Its objectives are to encourage public/private partnership and investment, generate jobs and income, and improve quality of life at a location that is highly visible and critically important to the MetroWest region. Downtown Framingham is located in a moderate-income census tract and is surrounded by other moderate-income tracts and a low-income tract. A Bank vice president currently sits on the Board and a former senior vice president was on the Board since the corporation's inception until 2011. The Bank had a lead role in forming the group into a 501(c)(3) organization.

Jewish Family Service of Metrowest (JFS) – JFS provides vital social, health and community services to alleviate suffering, enhance lives and support people in need, with a particular focus on the lower-income areas of Framingham. A Bank executive vice president serves as a Director and a senior vice president has been a key advisor for several programs implemented by JFS. There are no other financial institutions providing leadership or financial expertise to this organization. The most recent initiative of JFS is a Math Academy after school program that is part of their Reducing Achievement Gaps program. A Bank senior vice president and other bank representatives teach the Savings Makes Cents financial literacy series to approximately 40 fourth grade students at the Woodrow Wilson Elementary School. The school is located in the assessment area's only low-income census tract where the majority of students is bilingual and receives free or reduced lunch. The organization's vision is to offer the financial literacy series to the students' parents in order to promote greater financial independence and education in this low-income geography. This program appears to be one of the only outlets for financial literacy for students in this community.

MetroWest ESL (English Second Language) Fund – Two Bank officers are actively involved with this organization. A senior vice president is Chairperson of the Board and a vice president is a Director who also runs the annual fundraising gala. There are no other local institutions serving on the Board of Directors. This organization provides free English classes, some of which are taught by Bank employees. The inability to speak English holds many low- and moderate-income individuals back from economic independence and advancement. The Bank is the backbone of the organization from a financial-expertise perspective. Middlesex Savings Bank chairs the organization's annual fundraiser gala by arranging the venue, notable speakers, and advertising for the event. In addition to sitting on the Board, a Bank vice president also leads the production of the gala on the Bank's time. The Bank also pays for all materials associated with advertising production. As noted by a community contact, first-generation Americans represent a needy segment of the Bank's community.

Mass Housing Partnership (MHP) – MHP is a State-wide public, non-profit affordable housing organization that works in concert with the Governor and the State Department of Housing and Community Development to help increase the supply of affordable housing in Massachusetts. It provides long-term financing for the development and preservation of affordable rental housing, as well as a first time homebuyers program for low- and moderate-income families. The Bank's

Chairman and Chief Executive Officer serves on the Board and is the Secretary and Treasurer for MHP.

Homeowners Options for Massachusetts Elders (HOME) – A 30-year old non-profit agency, HOME is dedicated to protecting the equity of low- and moderate-income elder homeowners. As an independent third party, HOME receives no fees whatsoever for any loans generated. This allows HOME counselors to focus solely on HOME's mission: To conserve and protect the equity of low/mod-income elder homeowners so they can age-in-place. HOME is also recognized as a national leader in senior foreclosure prevention. A Bank senior vice president is the Board President.

Bay Colony Development Corporation (BCDC) – BCDC is a non-profit corporation operating as a Certified Development Corporation (CDC) that provides small business financing to Massachusetts businesses utilizing the SBA's 504 loan program. BCDC provides growing businesses with long-term, fixed-rate financing for the purchase or refinance of major fixed assets, such as land, buildings, machinery and equipment. These loans are typically secured by junior liens in conjunction with a loan secured by a senior lien from a bank. A Bank senior vice president serves on the Board and Executive Committee of BCCD. In addition to his role with BCDC, this senior vice president is also on the Lender Advisory Committee of the National Association of Development Companies (NADCO), the national resource group for CDCs.

Affordable Housing Trusts (Natick and Franklin) – Two Bank officers serve in leadership roles for affordable housing trusts located in assessment area communities. As Chairman and Treasurer, these individuals ensure effective use of affordable housing grants so that low- and moderate-income borrowers receive down payment assistance for the purchase of existing homes at fair market values.

Frederick A. Rubin Micro Loan Fund – A Bank vice president served as the Chairperson of the Loan Review Board of this fund during the review period. Although no longer active, the fund's primary objective was to address the needs of small business owners located throughout the MetroWest region who have been unable to access credit and capital through traditional means.

Financial Educational Seminars and Services

Middlesex Savings Bank conducted and participated in seminars and services designed to educate consumers and small businesses about personal finance, banking and products available to meet their specific needs. The Bank was a leader in providing financial education to needy and vulnerable populations in the area, including the elderly and individuals who do not speak English as a first language.

Financial Literacy

The Bank was very active in initiating and participating in financial literacy programs that specifically benefitted students, immigrants and subjects of the rehabilitation process. These programs include:

- *JFS Reducing Achievement Gaps* – This program involves an after-school education academy for elementary school students in the most economically challenged portion of the assessment area. The Bank worked with JFS to initiate a financial literacy component of this program in 2013. Bank personnel present the Savings Makes Cents curriculum to

fourth grade students at the Woodrow Wilson Elementary School, which is located in a low-income census tract in Framingham. JFS and the bank intend to offer a financial literacy course to the parents of these students in the near future. As mentioned previously, this appears to be one of the only sources of financial education for families in the one low-income tract of the assessment area. There are no other financial institution's providing leadership or direct program support to this organization.

- *Metrowest ESL* – This organization offers free English classes in Framingham for students and adults. In addition to a Bank senior vice president serving as Chairperson of the Board, several Bank employees provided financial literacy instruction to program participants. The focus of these presentations is on understanding credit card statements since the Bank's research suggested this was the area of greatest interest and need. The Bank tailored course content to meet the most pressing financial literacy needs of this vulnerable population.
- *Pondville Correctional Center* – A Bank officer arranged and taught a budgeting class at this correctional facility using the FDIC's Money Smart program on three separate occasions to a group of inmates in the process of rehabilitation. These efforts are noteworthy since the Bank initiated this activity on its own, for the purpose of cultivating more positive money management habits for a segment of the population in need of information.
- *Massachusetts Correctional Institution* – A Bank officer taught a class on entrepreneurship at the Framingham and Concord facilities through the Venturing Out program. The program helps inmates prepare for a successful transition and economic independence when they reenter society. This individual is a primary contact for financial expertise in delivering this program.

Elder Money Management

The Bank regularly provides banking assistance and education to low- and moderate-income elders. These efforts are highly responsive to the needs of the assessment area as a significant portion of low- and moderate-income individuals are elderly. Examples of these efforts include:

- *BayPath Elder Services* – Bank employees participate in the money management program. This involves assisting low- and moderate-income elders with budgeting, paying bills, and other financial tasks.
- *Minuteman Senior Services* – Bank employees participate in the money management program. This involves assisting low- and moderate-income elders with budgeting, paying bills, and other financial tasks.
- *Shillman House* – Bank employees provide on-site banking services to residents in this Framingham apartment complex for seniors. Approximately 60.0 percent of the 150 apartments are designated for low- and moderate-income individuals or couples.

Small Business Education and Support

The Bank frequently assists small businesses with technical support and education through its free seminars and in cooperation with small business support organizations. The Bank sponsored or participated in the following seminars:

- *Small Business Seminar Series* – Throughout the review period the Bank offered free seminars for businesses. The Bank held three sessions each year and presented on topics such as effective networking, online marketing tools, customer service excellence.
- *Smaller Business Association of New England (SBANE)* – The Bank often partners with SBANE to provide resources to the areas small businesses. The Bank sponsored and participated in seminars in 2011, 2012, and 2013 to support small businesses. These seminars included topics such as outlining financial and management assistance opportunities and gaining access to capital markets. The Bank is the go-to institution for this organization in delivering educational services to local small businesses.
- *South Eastern Economic Development (SEED)* – The Bank sponsored a free seminar in partnership with SEED that was designed for individuals looking to start new businesses. The seminar focused on basic entrepreneurship skills.

First Time Homebuyer (FTHB) and Affordable Housing

The Bank initiated free FTHB educational events and assists the South Middlesex Opportunity Council by presenting to and providing counseling for participants in the organization's FTHB seminars. Bank employees made approximately six presentations during the evaluation period at FTHB seminars. In addition to Bank officers serving in leadership roles for community affordable housing organizations, staff from the Mortgage Lending area participated in affordable housing informational workshops for interested consumers. The Bank participated in approximately five of these workshops during the evaluation period.

Other Services

Massachusetts Community Banking Council's (MCBC) Basic Banking Program – Middlesex Savings Bank voluntarily participates in the MCBC Basic Banking program. In order to qualify, the Bank offers a non-interest bearing basic checking account that particularly benefits low- and moderate-income individuals. All of the Bank's savings accounts meet MCBC guidelines.

Federal Home Loan Bank of Boston (FHLB Boston) – The Bank administered a \$125,000 Direct Subsidy Grant from the FHLB Boston for the renovation of a group home in Hopkinton. The home provides affordable housing for a group of low- and moderate-income adults with disabilities.

Interest on Lawyers Trust Accounts (IOLTAs) – Under an agreement with the Massachusetts Bar Association, interest paid on these accounts is used to provide legal assistance to low- and moderate-income individuals. Programs funded through IOLTAs in Massachusetts provide legal assistance to over 100,000 individuals across the state. IOLTA continues to be the primary source for consumer, family, education, disability, and elder law services for low-income clients. As of August 31, 2013, Middlesex Savings Bank has 293 IOLTAs with balances of approximately \$22.5 million.

APPENDIX A

Fair Lending Policies and Practices

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106.

FAIR LENDING REVIEW

Middlesex Savings Bank's fair lending controls are evident within its policies and procedures, such as the Underwriting and Processing manual and the Retail Lending Policy. All lending employees (residential and commercial) are provided with online fair lending training appropriate to their job descriptions and their responsibilities in fair lending issues. The Senior Vice President also covers fair lending topics during sales meeting with lending staff, utilizing "real world" experiences. The underwriting and decision making process is centralized. Additionally, all residential, consumer, or commercial loan applications that are slated for denial undergo a second review. There are no pricing exceptions, and any exceptions to underwriting are tracked and reported to the Board on a quarterly basis.

An informal comparative file review was conducted, and it was determined that the Bank is following the guidelines from the Retail Lending Policy in a consistent manner.

No violations of the substantive provisions of the Equal Credit Opportunity Act or related laws and regulations were identified during the examination.

MINORITY APPLICATION FLOW

For 2011 and 2012, Middlesex Savings Bank received 2,485 HMDA reportable loan applications from within its assessment area. Of these applications, 113 or 4.5 percent were received from minority applicants, of which 82 or 72.6 percent resulted in originations. The Bank also received 53 HMDA reportable applications, or 2.1 percent, from Hispanic or Latino borrowers and joint applications in which at least one borrower was Hispanic or Latino. Of the 53 applications, 39 or 73.6 percent of this group were originated.

The Bank's residential lending was compared with the 2011 aggregate's lending performance. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants. Refer to the following table for information on the Bank's and the aggregates minority application flow in the assessment area.

Table 11 – Minority Application Flow					
RACE	2011		2011 Aggregate	2012	
	#	%	%	#	%
American Indian/ Alaska Native	1	0.1	0.1	0	0.0
Asian	28	2.4	7.8	40	3.0
Black/ African American	4	0.3	0.6	6	0.5
Hawaiian/Pac Islander	0	0.0	0.1	0	0.0
2 or More Minority Races	0	0.0	0.0	0	0.0
Joint Race (White/Minority)	14	1.2	1.4	20	1.5
Total Minority	47	4.0	10.0	66	5.0
White	976	84.0	63.8	1,090	82.4
Race Not Available	139	12.0	26.2	167	12.6
Total	1,162	100.0	100.0	1,323	100.0
ETHNICITY					
Hispanic or Latino	12	1.0	1.0	9	0.7
Not Hispanic or Latino	1,005	86.5	71.9	1,120	84.7
Joint (Hisp/Lat /Not Hisp/Lat)	9	0.8	0.8	23	1.7
Ethnicity Not Available	136	11.7	26.3	171	12.9
Total	1,162	100.0	100.0	1,323	100.0

Source: 2011 and 2012 HMDA LAR & 2011 HMDA Aggregate Data. Percentages may not sum to 100.0 percent due to rounding

According to the 2000 U.S. Census, the Bank’s assessment area contained a total population of 890,752 individuals of which 11.0 percent are minorities. The assessment area minority and ethnic population is 1.7 percent Black/African American; 4.4 percent Asian; 0.1 percent American Indian/Alaska Native; 1.6 percent “other” and 3.2 percent Hispanic or Latino.

As indicated in the table above, the Bank’s performance in minority application flow was below the 2011 aggregate for minority and comparable for ethnicity. The Bank received 4.0 percent of its applications from minorities while the aggregate received 10 percent of applications from minorities. The Bank received 1.8 percent of applications from Hispanic or Latino borrowers and joint applications in which at least one borrower was Hispanic of Latino. The aggregate also received 1.8 percent from the same group of applicants.

According to the 2010 U.S. Census, the Bank’s assessment area contained a total population of 923,172 individuals of which 17.2 percent are minorities. The assessment area minority and ethnic population is 2.2 percent Black/African American; 7.3 percent Asian; 0.1 percent American Indian/Alaska Native; 2.7 percent “other” and 4.9 percent Hispanic or Latino.

The Bank’s performance in minority application flow improved in 2012 from 2011. The Bank received 5.0 percent of its applications from minorities over the 4.0 percent in 2011. The Bank also received 2.4 percent of applications from Hispanic or Latino borrowers and joint applications in which at least one borrower was Hispanic of Latino, which also represents an improvement.

Overall, The Bank’s minority application flow and general fair lending controls are considered adequate. However, the Bank is encouraged to continue its efforts on behalf of fair lending by expanding the scope of its fair lending audits and exceptions tracking, and provide training to all front line staff that may interact with customers. The Bank is also encouraged to consider strategies to expand the access to potential minority applicants.

APPENDIX B

GENERAL DEFINITIONS

GEOGRAPHY TERMS

Block: Small areas bounded on all sides by visible features such as streets, roads, streams or rail road tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts or block numbering areas (BNA), and are assigned a unique three-digit number.

Block Group: Clusters of blocks within a census tract or BNA, having a four-digit number and a three-digit suffix. The four-digit number corresponds to the same number given to the census tract or BNA in which it is located.

Block Numbering Areas (BNAs): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

Rural Area: Territories, populations and housing units that are not classified as urban.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

HUD Adjusted Income Data: The US Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent US Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

APPENDIX C

INVESTMENT DEFINITIONS

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Low Income Housing Tax Credits: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the US Department of the Treasury and the Internal Revenue Service. The US Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

Qualified Investments: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.

APPENDIX D

Standard PE Language

LENDING TEST

Scope of Test

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and 7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Community Development Lending:

Performance Criteria

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

Innovative and Flexible Lending Practices:

Performance Criteria

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

INVESTMENT TEST

Scope of Test

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or service test may not be considered under the investment test. The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

SERVICE TEST

Scope of Test

The service test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 6 Main Street, Natick, Massachusetts 01760."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.